



NOTICE TO STATE WATER PROJECT CONTRACTORS

NUMBER: 98-14

DATE: December 18, 1998

SUBJECT: Notices of Contest regarding the
Accuracy of Statements of Charges

FROM:

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The water supply contracts require the contractors to give Notices of Contest regarding the accuracy of Statements of Charges to the State no later than 10 days prior to the date payments are due.

While the Department of Water Resources recognizes that there are several areas that must be left open for discussion, it is the Department's intention to work with the contractors over the next year to resolve the protested items listed below. Accordingly, the contractors shall have until December 21, 1999, to file Notices of Contest and to pursue other available remedies on Statements of Charges submitted prior to that date for those contested items listed below which remain unresolved:

1. All costs incurred after January 1, 1998.
2. All charges affected by procedures for determining repayment of off-aqueduct power facilities.

In addition, the following previously protested items outlined in the State Water Contractors' letter of June 14, 1994 are open and additional Notices of Contest of these items are not necessary.

1. Source of funding for some statewide planning tasks presently charged to the water contractors.
2. Source of funding for certain programs including:
 - Delta facilities planning and evaluation
 - Delta facilities operations and maintenance
 - Bay/Delta Environmental Protection Study.
3. Those costs of the Suisun Marsh facilities which are not resolved by the Suisun Marsh Agreement.

4. Source of funding and cost of routine sediment removal activities in the San Luis Canal.
5. Project energy costs and related activities as follows:
 - All costs insofar as such costs are affected by project purpose allocations.
 - Costs associated with Reid Gardner Powerplant to the extent reimbursable expenditures remain to be audited and reviewed by the contractors.
6. Reimbursement by Los Angeles Department of Water and Power for costs of the Upper Castaic Canyon recreation Development Plan.
7. Contra Costa Canal intake relocation costs charged to the contractors.
8. Statewide benefits accruing as a result of State Water Project expenditures for certain groundwater basins other than the Kern Water Bank.
9. The beneficiaries and funding of the State Water Project future water supply program.
10. The beneficiaries and funding of the recreation planning and implementation program.
11. Those costs associated with Los Banos Grandes and Arroyo Pasajero which may be outside the scope of the water supply contract.

In addition, the long-term water supply contracts provide that any overpayment or underpayment to the State in any year by reason of error in computation or other causes shall be adjusted in the next succeeding year. Under this provision, the Department makes adjustments to the Statements of Charges without regard to time limitations. This provision applies to, but is not limited to, the findings in audit reports of Ernst & Young LLP (Independent Audit Association) and Richardson & Company (Metropolitan Water District of Southern California) for costs charged to the State Water facilities as of December 31, 1997 and the annual Statement of Charges rendered by the Department dated June 30, 1998.